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SUBJECT: ROMANIA'S PUBLIC SECTOR PREPARING FOR LAYOFFS TO COMPLY
WITH IMF BUDGET REQUIREMENTS

REF: 09 Bucharest 756 and previous

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Sensitive But Unclassified; not for Internet distribution.

¶11. (U) SUMMARY: Although overall unemployment in Romania reached 7.8 percent in December 2009, the number will go higher in 2010 as layoffs in the public sector are just beginning. As many as 100,000 government positions could be on the chopping block if the Government of Romania (GOR) is to remain within the budgetary constraints of its commitments to the International Monetary Fund (IMF). A new draft law would limit the numbers of employees in local public administrations, which have seen some of the biggest percentage increases in staffing levels and compensation in recent years. Additional layoffs have been proposed for social workers and teachers. As expected, union leaders are decrying the actions as illegal and threatening protests in response. END SUMMARY.

UNEMPLOYMENT CONTINUES TO RISE

¶12. (SBU) By the end of 2009, Romania's 20 largest private employers had laid off approximately 23,000 of their almost 300,000 workers. With a total of 710,000 Romanians out of work, the unemployment rate has reached 7.8 percent, the highest level since the beginning of **¶2004**. Although the budget approved by Parliament assumes a slightly reduced 7.3 percent unemployment rate and a total of 645,000 unemployed by the end of 2010, this will be hard to achieve: the private sector does not anticipate a revival of the labor market in the coming year, at the same time that many government workers may lose their jobs. The head of the IMF Mission to Bucharest said on January 27 that the number of unemployed in Romania could reach 1 million during the first half of 2010. The impact of growing unemployment has been felt across the economy as out-of-work Romanians default on bank loans and curb their spending, as evidenced by discouraging sales during the Holiday season.

¶13. (U) In order to bring deficits under control, the IMF has insisted that the GOR reign in public sector personnel costs (reflets), the fastest-growing budget item over most of the last decade. The first major step was passage of the "unitary salary law" by Parliament last September, standardizing and simplifying wage scales and bonus payments across government ministries. Reductions in force must now follow. Labor Minister Mihai Seitan had previously stated there would be a maximum of 70,000-80,000 positions eliminated in the public sector. He added that the cuts would occur gradually and that retraining would be provided to assist those affected in finding new jobs. Finance Minister Sebastian Vladescu, however, recently declared that 100,000 public jobs would be cut as part of a government-wide effort to meet IMF targets and that each institution would decide how to implement the plan. (Subsequently, however, Vladescu has sought to contain the political fallout from his pronouncement by insisting that the estimate of 100,000 job cuts "is not grounded in reality.") At the

same time, Interior Minister Vasile Blaga pointed out that the Government must hold mandatory discussions with unions prior to submitting the draft law to Parliament for approval. Labor Minister Seitan declared on January 25 that salaries and hiring in the public sector would be frozen in 2010.

LOCAL PUBLIC ADMINISTRATIONS TO LOSE THE MOST

¶4. (U) A new draft law, initiated by the Ministry of Finance and endorsed by the Ministry of Interior, would cut positions in local public administrations (counties and municipalities) by more than 20 percent through limiting the number of employees in town halls based on community population. Romania's local public administration offices would lose 16,742 positions in 2010, trimming the local civil service to less than 65,000 employees. Officials will base decisions about who is laid off on family status and eligibility for retirement. The first to be targeted will be individuals with no children in their care and those who already meet retirement conditions. Single parents and employees who will qualify for retirement within five years will be among the last to face layoffs.

OTHER SECTORS TO BE AFFECTED AS WELL

¶5. (U) Following the elimination of 18,000 positions at the pre-university level in 2009, an additional 15,000 teachers will be laid off starting in September 2010. With these reductions, the number of teaching jobs financed by the state will drop to 306,677. President Traian Basescu declared in a televised interview late last year that substitute teachers, employees already eligible for retirement, and administrative personnel would be the first to lose their jobs. He further claimed that pending curriculum reform would reduce the number of teaching positions needed.

¶6. (U) In applying new cost standards for the number of employees

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needed to provide protection services for children, the disabled, and the elderly, the Government is also setting its sights on social services. About 3,000 of the current 32,000 social workers will lose their jobs in 2010, many in state-run orphanages and similar care institutions.

¶7. (U) The IMF has also urged the GOR to limit losses at state-run enterprises, many of which survive only with large government subsidies. At the top of the list is state railway company CFR, where downsizing may result in about 11,000 jobs being axed, in addition to the 4,700 employees forced into retirement in 2009.

BIG LAYOFFS MAY GENERATE ONLY SMALL SAVINGS

¶8. (SBU) The proposed cuts may not generate the savings that the Government expects, however. The GOR estimates it will reduce annual personnel expenditures by 471.5 million lei (about \$165 million), but some critics claim the actual savings would only total 230 million lei (\$80.5 million). The difference reflects lost income tax revenue and higher expenses for severance pay and unemployment benefits, which the GOR estimate fails to account for. Moreover, critics assert that many of the positions caught in the crosshairs are vacant, so actual layoffs and, therefore, personnel expenditure savings may be significantly less than the GOR has projected. Considering its double role -- of employer and of social guardian -- the state is faced with a new conundrum: on the one hand, it cuts costs by eliminating 100,000 positions; on the other hand, it incurs the responsibility of providing social welfare benefits for the unemployed and their families, possibly for a long time.

¶9. (U) As a temporary cost-cutting measure included in the unitary salary law, the GOR required most state employees to take eight days of leave-without-pay in November and December 2009. Economy Minister Adriean Videanu stated recently that public sector employees will not face forced furloughs this year because their salaries will be frozen in 2010. He optimistically added that "the economic recovery signs are already visible...and the industrial output has started to show signs of growth." He also denied rumors

that the IMF would require the GOR to increase the VAT rate to 21 percent if 100,000 public sector employees are not sacked before September.

UNIONS REACT IMMEDIATELY, THREATENING PROTESTS

¶10. (U) Not unexpectedly, public sector unions criticize the Government's approach. Unions say the measures are being imposed by international institutions without due regard for local realities, are unsubstantiated by impact studies, and contradict Romanian labor laws. Unions are demanding legislation to standardize layoff conditions and severance pay, which are currently decided by each ministry. They also request an amendment to the current Unemployment Law to standardize unemployment benefits and provide training programs for reintegration of workers into the labor market.

¶11. (U) Two hundred public service, transportation, and industry employees -- members of the National Federation of Trade Unions in Administration (FNSA) and National Confederation of Free Trade Unions of Romania-Brotherhood (CNSLR-Fratia) --picketed in front of the Ministry of Finance on January 25, calling for an extension of unemployment benefits. The FNSA has also announced a general strike beginning in mid-February if the GOR proceeds with the announced layoffs in local administrations. Cartel Alfa has indicated that unions all over the country are gathering signatures in support of street protests and strikes.

¶12. (U) Aurel Cornea, the leader of one of the most important teachers' union federations, told post that his union will file new constitutional challenges to the unitary salary law and will organize protests against its implementation. He characterized the law as "abusive" and said it failed to incorporate union input. The leaders of two other public sector union federations warned of work stoppages and drastic decreases in efficiency in many local public administration offices, some of which they claim are already short-staffed. One union leader expressed concern over how layoffs would be carried out, fearing that the best professionals may be fired to make room for those employees with personal or political connections.

¶13. (U) After meeting with union leaders, the Government announced on January 28 that it would extend "technical unemployment" status for several months to cushion the effects of layoffs. While in this status, workers are considered laid off and stay home while continuing to receive 75 percent of their salaries, tax-free. In addition to losing out on tax revenue, the Government covers the employee's costs for health care, pension, and other employment

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benefits. This measure is expected to cost the GOR approximately 411 million lei (\$140 million) this year.

COMMENT

¶14. (SBU) Despite persistent rumors of impending layoffs since Romania concluded the IMF agreement last March, the GOR managed to avoid significant RIFs during the politically sensitive 2009 presidential election season. Meeting the deficit target for 2010, however, will be impossible without more drastic measures to eliminate redundant public sector employees. This ultimately may have a positive impact in cutting the country's immeasurable red tape, but only if the reductions leave the bureaucracy's most efficient and productive workers in place. Otherwise, poorly-planned layoffs may simply impede public functions without improving efficiency at all. President Basescu has labeled public sector reform and modernization as a key goal of his new term in office. This year offers a unique window of opportunity in many respects, and if this massive personnel restructuring is not implemented now, such unpopular measures will be very difficult to take later on. END COMMENT.

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